



BDO Seidman, LLP
Accountants and Consultants

Executive Summary: BDO Seidman Retail Compass Survey

The BDO Seidman Retail Compass Survey is a national telephone survey conducted by Market Measurement, Inc., an independent market research consulting firm, whose executive interviewers spoke directly with chief marketing officers. The survey was conducted within a scientifically developed, pure random sample of the nation's leading retailers (with revenues ranging from more than \$100 million to billions of dollars).

BDO Seidman Retail & Consumer Product Practice

BDO Seidman, LLP has been a valued business advisor to retail and consumer product companies for almost 100 years. The firm works with a wide variety of retail clients, ranging from multinational Fortune 500 corporations to more entrepreneurial businesses, on myriad accounting, tax and other financial issues.

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Retailers, a backbone to the nation's consumer-driven economy, struggled to keep the holidays alive by enticing consumers with more promotions and cutbacks on inventory purchases this year. However, as early as October, retailers admitted that their hopes for the holiday season had diminished and came to terms with the reality that sales might decline for the first time in many years.

The annual BDO Seidman, LLP Retail and Consumer Product Practice study of chief marketing officers (CMOs) at leading U.S. retailers showed an increase in concern over holiday sales results.

The BDO Study revealed that CMOs at leading U.S. retailers expected to have the worst holiday season in nearly a decade. In fact, for the first time in the history of this survey and many others, retailers predicted a year-over-year decrease in holiday sales. In October, the CMOs predicted that comparable store sales for the 2008 holiday season would decrease from last year by a drastic 2.7 percent and that overall sales would drop by 2.8 percent.

While the pessimism among retailers this season was unprecedented and highly attributed to the recent turmoil in the financial markets, it was justified. As it turned out, the CMOs were right on target with their predictions. According to the National Retail Federation, overall holiday sales did, in fact, decline by 2.8 percent. There was much uncertainty in the retail sector this holiday season but retailers were consistent in citing reduced inventory purchases as a result of tightened credit and slowed spending. In fact, three-quarters (75%) of the CMOs reported to be more cautious about their sales and inventory purchase plans for the holiday season, which was up from 64 percent of CMOs who reported cautious inventory plans in 2007.

Without a doubt in October, retailers expected to deliver a very promotional environment this holiday season that would appeal to cost-sensitive consumers, despite the impact it would most likely have on their already shrinking margins. An overwhelming majority (88%) of CMOs said they would offer more discounts and promotions this year as a result of the economy and credit crunch, which was up from 73 percent last year. Most of the CMOs (42%) cited that those discounts would take the form of in-store promotions, followed by markdowns (37%) and online promotions (20%).

An Unprecedentedly Poor Holiday Season

Thirty-nine percent of CMOs at leading retailers expected comparable store sales to decrease this holiday season, while 41 percent expected sales to be flat and only 20 percent expected sales to increase. In 2007, only five percent of CMOs cited a decrease in sales, while 41 percent cited increased sales and 54 percent said sales would be flat. Looking back to 2006 holiday sales predictions, when the economy was much brighter, 67 percent of retailers expected an increase in sales, while 31 percent said sales would be flat and only two percent said sales would decrease.

Critical Concerns

Recent market turmoil trumped all other concerns this holiday season. When asked to pick one external issue that would have

the greatest impact on the holiday shopping season, more than half (54%) of the CMOs cited uncertainty in the financial markets. Other issues cited were high energy and fuel costs (25%), unemployment (10%), the weak housing market (8%) and the presidential election (3%). In 2007, a majority (27%) of the CMOs viewed credit concerns as the number one concern, but high fuel costs (22%) and a weak housing market (17%) were close behind. Gas prices were the chief concern in 2006, with 52 percent of CMOs citing energy as the biggest concern.

Turnaround Predictions for Q3 of 2009

By October, retailers grew concerned that the economy would experience a prolonged downturn. Sixty-five percent of CMOs do not expect to see a meaningful turnaround in the economy until the third quarter of 2009 or beyond, with 29 percent citing a turnaround in the third quarter, 17 percent citing a turnaround in the fourth quarter and 19 percent expecting a turnaround in 2010. By comparison, 47 percent of the CFOs predicted (in August and early September) that the economy will experience a meaningful turnaround in the first half of 2009, with the highest concentration of CFOs (28%) citing the second quarter as the most promising.

Further, more than a third (35%) of the CMOs said that an economic turnaround will be most dependent on a rebound in the financial markets. Other responses included a rebound in the housing market (22%), lower fuel and energy costs (20%), a new president (16%) and lower unemployment (6%).

Black Friday and Cyber Monday Still Growing

Black Friday and Cyber Monday have been a boon to U.S. retailers over the years, and were expected to be a pocket of growth for the season. The CMOs surveyed anticipated that Black Friday sales would grow 1.2 percent this holiday season, and that online sales on Cyber Monday would grow by 2.4 percent this year.

While it is good to see growth, unfortunately these predictions were still down significantly from last year when reports found that actual Black Friday and Cyber Monday sales grew 8.3 and 21 percent respectively. While seemingly dismal this year, there were some bright spots on the horizon. There is still enormous growth potential in internet sales, which remains a fairly new phenomenon. Further, gift cards

are still popular this year because they allow the end user to decide on the gift based on their personal needs.

In fact, internet sales and gift card sales were expected to fare well for retailers. The CMOs projected internet sales to grow 8.0 percent and gift card sales to grow 5.1 percent this holiday season.

These are the findings from the most recent edition of the annual **BDO Seidman Retail Compass Survey**, which examined the opinions of 100 CMOs at leading retailers located throughout the country regarding their expectations of the 2008 holiday shopping season. The retailers in the study were among the largest in the country, excluding automotive dealers and restaurants, with revenues of more than \$100 million, including 13 percent of the top 100 based on annual sales revenue.

Other major findings of the BDO Seidman Retail Compass Survey of CMOs include:

Consumer Electronics Expected to be Strongest Category

When asked about which product category will perform the strongest this holiday season most (49%) of CMOs cited consumer electronics. Electronics received far more mentions than home goods (16%), toys (15%), lifestyle goods, such as books and sporting equipment (13%), apparel (5%) and jewelry (2%).

Gift Cards Still a Bright Spot

More than one-third (37%) of retailers expected gift card sales to increase this holiday season over the 2007 holiday season, while 50 percent expected gift card sales would be flat and 13 percent thought sales would decrease. Overall, retailers expected gift card sales to grow by 5.1 percent this season. Further, CMOs said that gift cards would account for 11.9 percent of overall holiday sales.

Most (44%) of retailers say that in-store purchases would be the biggest driver of gift card sales this holiday season, while 34 percent cited online purchases and 21 percent thought third-party vendors (such as kiosks and grocery stores) would drive the most gift card sales.

Internet to Drive Sales This Holiday Season

When compared to the 2007 holiday season, half (50%) of retailers expected their internet sales to increase this holiday sea-

son, while 38 percent expected sales would stay the same and only 12 percent anticipate a decrease in sales. Overall, internet sales were seen as a huge boon to retailers who anticipated 8 percent growth this holiday season.

Nearly Flat Black Friday Sales

The majority (68%) of CMOs anticipated that Black Friday sales would be flat this year, while 16 percent predicted an increase in sales and 16 percent predicted a decrease. Overall, sales were expected to grow by 1.2 percent over last year's sales. Last year, CMOs projected Black Friday sales to account for 15.1 percent of total holiday sales.

Slight Lift for Cyber Monday

Twenty percent of CMOs expected an increase in Cyber Monday sales, while 64 percent predicted a flat Cyber Monday and 16 percent predict a decrease. Overall, Cyber Monday sales were expected to grow 2.4 percent this year. Last year, CMOs projected Cyber Monday sales to account for 12.3 percent of holiday internet sales.

Marketing and Advertising Budgets Shrink

The recessionary climate has caused retailers to cut back in many ways, and advertising budgets are among the first items retailers consider when reducing spending. In fact, (32%) of CMOs stated that their holiday marketing and advertising budgets had been reduced this season. Further, nearly half (43%) of the retailers said their budget would remain flat and only a quarter (25%) cited an increase in advertising and marketing spending this holiday season. Most of the retailers (57%) said they would spend the majority of their advertising and marketing budget on print advertising, while 21 percent would focus on broadcast outlets and 19 percent would focus spending on internet advertising, including social networking sites.

Indicative of an increased interest in going green, a sizable 43 percent of retailers increased their advertising and marketing focus on green products this holiday season, which was up from 37 percent in 2007. Historically, in tough times, campaigns become less flashy, more sentimental and heavily focused on value-added items, such as sustainable products.